Innovative Approaches
to impact medical spend and employee productivity
Executive Summary

• Healthcare costs are on the rise.

• Increased consumer engagement, active management of chronic conditions, and improved health and wellness are the three key tactics for controlling the cost of employer healthcare benefit programs and improving workforce productivity.

• Aon Consulting treats health and benefits like an investment rather than an expense and builds a value-based business case to help you quantify the impact of a robust program.

The Challenge

Most Employers Experienced an Increase of 5% to 10% in Healthcare

Source: Aon Consulting’s 2007 Benefits and Talent Survey

Projected Increase in Healthcare Costs

Note: Healthcare trend rates for the 12-month rating periods from April 2007 to September 2007

Source: Data from Aon Consulting’s Spring 2007 Healthcare Trend Survey
The cost of providing health care to U.S. based employees continues at an unsustainable rate. Spending for group medical programs continues at an unsustainable rate. The majority of employees are not informed about true health care costs. Medical programs such as PPOs and HMOs do not provide healthcare tools to be an informed consumer nor the financial incentives to take ongoing ownership.

The majority of healthcare spending in the past 15 years is due to modifiable population risk factors (obesity, smoking, poor diet, lack of exercise, and stress). Healthy employees are more productive and less costly than their counterparts who suffer from unhealthy lifestyles, chronic disease, and frequent absence and disability.

Three approaches to improving healthcare costs are gaining prominence:

1. Increased consumer engagement
2. Active management of chronic conditions
3. Improved health and wellness

These approaches will reduce employer healthcare benefit program cost and improve workforce productivity.

Medical plan expenditures are a major challenge for employers, who are responding by shifting more financial responsibility to consumers and by educating those consumers about the cost and quality of medical services so they become prudent purchasers of health care.

There are four stages of health in an employee population:

- Healthy or “at-risk”: Includes a large number of individuals who are at risk of developing certain chronic conditions as they age due to family history and modifiable lifestyle risks such as obesity, smoking, lack of exercise, poor diet, and unmanaged stress. This results in occasional, unscheduled absence from work requiring the use of sick time.

- Acute: An injury or illness that has a brief duration, after which the individual returns to his/her normal state and degree of activity. Typically results in a single short-term absence from work requiring the use of sick time and possibly short-term disability benefits. Examples include broken leg, appendicitis, kidney stone, and pneumonia.

- Chronic: A disease, illness, or injury that continues indefinitely, has no known cure, and requires long-term treatment and monitoring. Results in intermittent, ongoing absence from work requiring the use of sick time, short-term disability, and possibly long-term disability. Examples are diabetes, congestive heart failure, and asthma.

- Catastrophic: An illness or injury that is seriously incapacitating, of extended duration, requires the utilization of significant healthcare resources and results in an employee’s absence from work for a prolonged period of time and which results in a substantial loss of income to the employee because of the exhaustion of all earned sick, vacation, and/or compensatory leave time.

Increases in healthcare costs have driven employers to seek innovative cost efficient solutions.
Individuals with chronic conditions account for approximately 75% of all healthcare costs, 88% of all prescriptions filled, 72% of all physician visits, and 76% of all inpatient stays, according to a report by the Partnership for Solutions, a research group at Johns Hopkins University. In addition to direct medical expenses, chronic disease accounts for significant losses in productivity due to illness or premature death.

A number of factors increase the risk of acquiring a chronic disease including age, obesity, smoking, poor nutrition, and sedentary lifestyle.

- Smoking is associated with an increased risk of at least 15 types of cancer and is a major cause of heart disease, cerebrovascular disease, chronic bronchitis, and emphysema. (American Cancer Society, Cancer facts and figures 2005.)
- Obesity contributes to the development of:
  - Noninsulin-dependent diabetes mellitus: Nearly 80% of patients with noninsulin-dependent diabetes mellitus are obese.
  - High blood pressure: Obesity more than doubles one’s chances of developing high blood pressure.
  - Heart disease: Nearly 70% of cardiovascular disease is related to obesity.

Source: The National Institute of Diabetes and Digestive and Kidney Diseases

Chronic conditions, such as depression and cardiovascular illness, can lead to presenteeism, or ineffectiveness on the job, among afflicted workers. These health problems generate many hidden costs, the largest of which is a negative impact on productivity. In many instances, chronically ill workers report for work but generate less output or output of diminished quality because of the underlying medical condition. Employers who are aware of this challenge are investing in prevention and chronic condition management programs for employees. Consequently, more employers seek to coordinate medical, disability and workers’ compensation service delivery and policies to improve worker productivity and contain costs. Improved data analytics and predictive modeling, which make it possible to pinpoint interventions to maximize ROI, aid these efforts. Aon Consulting’s healthcare experts anticipate an increase in demand for integrated health and productivity programs focused on improving employee health status.
The Solution: Programs Supporting Consumer Engagement, Chronic Condition Management, and Wellness

The Solution for U.S. Employers: A business level commitment to account-based consumer driven plans, health management/wellness, chronic condition management programs, and improved tools for engaged and committed employees.

Health cost trends have reduced modestly in the past two years in the U.S. but are still running at 2 – 3 times the rate of general inflation. Conventional programs such as PPOs and HMOs perpetuate the outdated notion that employees can remain passive, uninformed consumers who continue with health risk factors such as smoking, obesity, and lack of exercise with no individual accountability. The productivity of the U.S. workforce over the next 10 years is at risk due to the increasing prevalence of health risk factors, which drive chronic disease and which increase presenteeism, medical cost, disability, and absence.

The “solution” is for C-suite leaders to make employees health and program costs a key business level initiative with ongoing involvement by the CEO and other business leaders. A customized program of account-based CDH plan, integrated health management and wellness programs, and targeted condition management can be designed to achieve a targeted single digit medical trend level set by the company. Program impact over the next 3 – 5 years can be accurately measured by a data warehouse tracking key performance indicators in health status/individual risk, cost, utilization, access to care, and the productivity measures of absence, presenteeism, and disability.

Consumer Engagement

Consumer engagement is any technique designed to better engage the consumer in the cost and quality of health care. When making healthcare purchasing decisions, individuals have historically been insulated from the actual costs. In a consumer-based healthcare model, the member is given more financial incentives to consider the cost and quality of healthcare services, and benefits from being an informed and engaged participant in his or her healthcare choices.

In the United States, consumer-driven healthcare (CDH) is largely accomplished through the Health Savings Account (HSA) or Health Reimbursement Arrangement (HRA), with a strong consumer-behavior change component that incorporates cost and quality education, health and wellness promotion, and chronic condition management.

CDH represents a fundamentally new direction in the design and delivery of group medical coverage. The premise of a CDH plan is that knowledgeable and informed members will spend their own money more judiciously than they would spend employer or health plan funds. In this way, CDH serves as motivation for employees to develop and maintain a healthy lifestyle and purchase higher quality healthcare services more cost-effectively.

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37% of U.S. companies have implemented a CDH plan.

According to a 2007 study conducted by Aon Consulting and the International Society of Certified Employee Benefit Specialists, since the inception of CDH plans in the United States in 2001, 37% of organizations have implemented such a plan, and of those who have, HRA and HSA plans comprise almost equal shares. Given the success of CDH plans to-date, Aon Consulting believes they represent a fundamental shift in the way employers will deliver health care in the future.

There are various ways to establish a CDH program in your organization. Programs differ based on employer objectives. The key considerations are:

• How and when to use account-based plan designs
• How to attain high CDH plan enrollment
• How to attain high member usage of consumer engagement web tools
• How to effectively manage chronic conditions
• How to engage members in wellness programs
• How to establish a CDH program in countries where health care is at least partly state-insured

CDH is a major development in the delivery of health plan coverage and one that must evolve over time at a rate consistent with each employer’s appetite for change. A CDH plan can be offered as an additional health plan option or can fully replace existing plans, and can be self-funded or fully insured. Aon Consulting can evaluate all of your options to determine which design works best for your organization. At the forefront of helping employers implement CDH plans, Aon Consulting’s expert consultants and actuaries can develop the following solutions for your organization:

• Develop model plan designs
• Forecast program costs and savings
• Conduct vendor bids
• Negotiate vendor contracts
• Assist with communicating the new program to employees

Communication with employees is critical when implementing a CDH plan. Standard communication messages are not effective due to the required level of employee involvement. Aon Consulting’s communication experts will work with you to develop a customized and effective communications campaign to address the following topics with your employees:

• How to use an account-based CDH plan
• Why an account-based CDH plan is a good choice
• How to effectively shop for healthcare services
• How to use online decision support tools
• How to access health promotion and chronic condition management programs

Communication with employees is critical when implementing a CDH plan.
While there is currently a shift away from HMO to PPO designs, there is no indication that managed care programs are coming to an end. However, many of the elements essential to the success of consumer-driven plans are also needed for managed-care plan designs, including health management, health promotion, chronic condition management, transparency in medical provider pricing and quality, and pay for performance that rewards medical providers for superior outcomes.

While the CDH movement is still early in its evolution, the financial and employee satisfaction results have been extremely positive. Aon Consulting expects employers to continue to adopt CDH plans.

Active Management of Chronic Conditions

Chronic illness accounts for a significant portion of direct medical costs and indirect costs associated with presenteeism, or impaired worker productivity—a substantial human capital expense. For this reason, certain initiatives, such as preventing obesity and high blood pressure, are important from a healthcare cost point of view and from the perspective of keeping employees on the job so that the organization can derive the most benefit from their talents and efforts.

Chronic condition management programs assist members to manage their condition using education and coaching/support to increase compliance with evidence-based treatment guidelines. As a result, the detrimental effects of the disease are reduced or delayed leading to a reduction in the need for and cost of medical services and an improvement in quality of life. The most successful condition management programs include:

- Targeted programs that address those conditions that drive significant medical, pharmacy, absence and disability costs for the employer.

- Identification and risk stratification of potential participants using a wide range of sources such as medical and pharmacy claims, laboratory results, health risk assessment responses and real-time referral from the health plan, employer, provider and the member. Potential participants are then risk stratified based on age, sex, lifestyle risks, health care utilization, claims cost, and the presence of co-morbid conditions. Predictive technology is used to identify not only those members experiencing complications and utilizing healthcare resources today, but also those members at-risk of developing complications and utilizing resources in the next 12 to 18 months.

- Interventions are tailored to the individual member based on their level of risk, readiness to change and co-morbidities. Members work with a primary nurse allowing the development of a trusting, supportive relationship over time and the establishment of mutual goals. Interventions include educational and seasonal mailings, web-based resources (health information, resource links, self-directed behavior change programs, and tracking tools), telephonic nurse counseling; biometric monitoring, physician contact, and specialty counseling by dieticians, therapists, and pharmacists.

- Reporting and outcome measurement that addresses participation, activity, satisfaction, clinical results/compliance with evidence-based medicine, utilization, functional improvements, productivity, and return on the investment.
Health Management/Wellness

Additionally, employers are more actively encouraging individuals to lead healthier lifestyles. Increases in healthcare costs have driven employers to seek innovative, cost-efficient solutions while promoting a healthier workforce. According to Aon Consulting’s 2007 Benefits and Talent Survey, commonly implemented cost-control features include:

- Providing Internet- or intranet-accessed healthcare tools (21% of companies)
- Promoting employee exercise and physical activity (19%)
- Promoting the importance of health and productivity to employees (18%)
- Implementing chronic condition management programs (18%)

Popular wellness initiatives that organizations are implementing to promote a healthier, more productive workforce

Source: Aon Consulting’s 2007 Benefits and Talent Survey

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Telephonic healthcare coaching</td>
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<tr>
<td>Smoking cessation programs</td>
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<tr>
<td>Weight management/obesity programs</td>
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<tr>
<td>Health risk assessments</td>
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<td>Stress management programs</td>
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<td>Biometric screening</td>
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<tr>
<td>On-site fitness centers</td>
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Aon Consulting: A Unique Approach to Healthcare Solutions

Medical cost management, worker productivity improvement, a focus on general health and wellness, and the need to keep the workforce satisfied all combine to make managing health and welfare a complex and challenging issue. Aon Consulting treats health and benefits like an investment rather than an expense and builds a value-based business case to help you quantify the impact of a robust program. Moreover, as leaders in CDH design, Aon was one of the first companies in the United States to implement a CDH plan of its own—a clear demonstration of the company’s own innovation and leadership.

Aon Consulting has also developed an industry-leading toolkit of health and welfare tools and databases to guide your program decisions. This toolkit offers continually refreshed databases that bring an unparalleled level of efficiency to vendor identification and selection. We employ competitive benchmarking to identify the vendors who help maximize purchasing value. Some significant aspects of our health and welfare toolkit include:

- Electronic Request for Proposal (RFP) for every coverage
- Request for Information (RFI) databases updated annually
- Aon’s Health Plan Network Discount database
- Semi-annual trend surveys
- Health Plan Employer Data and Information Set (HEDIS) profiles on more than 200 health plans
- AonMed, AonCDH, and AonRx for pricing plan designs
- Health plan service area databases that match a client’s employee residences to any health plan in the country
- AonPredict for generating predictive modeling reports
- CalcPro for estimating productivity savings potential for chronic condition and health promotion/wellness
- HealthLeaders/InterStudy market overviews in 75 metropolitan markets
- Carrier financial information using AM Best data

Aon Consulting’s health and welfare toolkit includes industry-leading RFI databases that contain insightful information on several thousand health and welfare plans and vendors. Aon Consulting maintains these databases for:

- HMO, Point of Service (POS), and PPO networks
- Consumer-driven health plans
- Pharmacy Benefit Managers (PBMs)

Aon was one of the first companies in the United States to implement a CDH plan of its own—a clear demonstration of the company’s innovation and leadership.

Aon Consulting’s capabilities also include personalized communication to help your employees track their savings and investment performance against their personal financial objectives.
• Third Party Administrators (TPAs)
• Chronic condition management
• Health promotion/Wellness
• Dental
• Stop loss
• Life/Disability

By employing the full spectrum of health management programs, including health promotion and wellness, chronic condition management and care/case management, you can identify and manage major healthcare cost drivers for your entire workforce population, regardless of individual health status.

Aon Consulting has unparalleled resources to help you develop effective strategies for your health and welfare benefit programs. National, regional, and local expertise allows the company to efficiently develop customized solutions to meet the unique needs of your organization. Aon Consulting’s experienced clinicians, actuaries, benefits consultants, and communications consultants can work closely with you to:

• Identify disease prevalence and costs
• Develop a strategy for plan design, education, and employee communication
• Reduce healthcare and disability costs—as well as indirect plan costs related to productivity, presenteeism, and absenteeism
• Perform cost/benefit analyses for incentives
• Evaluate potential return on investment
• Identify and select vendors based on employer needs and objectives
• Integrate information and activities across medical, disability, and workers’ compensation coverage
• Negotiate contract and performance guarantees
• Assist with program implementation and employee communication
• Provide ongoing management of vendor performance and program outcomes
• Establish clear, measurable outcome metrics and performance targets

Aon Consulting’s Solutions Have Typically:

• Driven 50% participation in CDH programs
• Reduced the annual medical trend by 50%
• Reduced the rate of hospitalization by 10% to 30% for individuals with chronic disease conditions
For Further Information About Aon Consulting’s Services, please contact any of the senior leaders below:

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Aon Consulting Worldwide (www.aon.com/hcc) is among the top global human capital consulting firms, with 2006 revenues of $1.282 billion and 6,500 professionals in 117 offices worldwide. Aon Consulting is reshaping the workplace of the future through benefits, talent management and rewards strategies and solutions. In August 2006, Aon Consulting was named the best employee benefit consulting firm by the readers of Business Insurance magazine.